

## **Bakarudin Ishak: Linking United Kingdom & Malaysia – opportunities and solutions in fundraising and investments**

Introductory address by Mr Bakarudin Ishak, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Forum “Linking United Kingdom & Malaysia: Opportunities and Solutions in Fundraising and Investments”, organised by TheCityUK, London, 29 September 2015.

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On behalf of the Malaysian delegation, I am pleased to be here today at this forum with the theme “Linking United Kingdom & Malaysia: Opportunities and Solutions in Fundraising and Investments”. It is a great opportunity to jointly organise this event with TheCityUK which we hope will further enhance Malaysia-UK relationship in Islamic finance and strengthen the investment and financial ties between the two countries.

### **Appreciation note**

Our utmost appreciation goes to TheCityUK for hosting this Forum and the warm hospitality extended to Malaysian delegates.

We would also like to extend our appreciation to Trowers & Hamlins for holding this Forum at its venue. Trowers & Hamlins is Malaysia’s first foreign law firm to be granted a Qualified Foreign Law Firm (QFLF) licence. This allows them to operate independently in Malaysia and advise on international legal issues including on Islamic finance matters. The entry of foreign legal firms will create a symbiotic environment to accelerate the Malaysian legal firms’ capabilities at the international front.

We are also encouraged by the leadership shown by the Lord Mayor Alderman Alan Yarrow who is also President of TheCityUK’s Advisory Committee during his visit to Malaysia in May 2015 to discuss ways to further strengthen the collaboration between our countries with Islamic finance as the intermediary, in particular in the areas of trade and investment.

### **Malaysia-UK relationship**

The UK-Malaysia’s relationship stretched back many centuries. Our strong and close linkages in social, economic and finance span over a period of 200 years that have delivered great economic benefits and opportunities to both countries.

In Islamic finance, our collaborative partnership formally began with the MoU between Bank Negara Malaysia and the UK Trade and Investment (UKTI) in 2009. The collaboration paves the way for both countries to strengthen international linkages in talent and expertise, cross border business and infrastructure support.

### **Islamic finance: prospects & opportunities**

Islamic finance has increased its significant in the international financial landscape. As at third quarter of 2014, global banking asset has reached almost USD2 trillion whilst Islamic fund assets and takaful contributions amounted to USD76 billion and USD21 billion, respectively<sup>1</sup>. As at end June 2015, total sukuk or Islamic bond outstanding stood at USD313 billion with Malaysia making up 55% or USD172 billion of total market share<sup>2</sup>.

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<sup>1</sup> Source: IFSB 3Q2014.

<sup>2</sup> Source: Bloomberg, Zawya.

The increased participation of non-Muslim jurisdictions also reflects the positive acceptance of Islamic finance among the global community. Sukuk has drawn strong interests as an attractive source of funding and a new asset class.

UK, Hong Kong, Luxembourg and South Africa issued sovereign sukuk last year. With this leadership taken by the British Government, UK became the first non-Muslim country to issue sovereign sukuk of GBP200 million that attracted strong demand of more than 10 times. Hong Kong issued the second sovereign sukuk in 2015 following its successful inaugural issuance.

The sovereign issuances are hoped to pave the way for corporate sukuk issuances particularly from these jurisdictions.

Another landmark transaction is the syndicated Islamic financing facilities of GBP467 million for the Battersea Power Station Phase 3 project in London.

The involvement of our Malaysian players in some of these global transactions has encouraged cross-border business transactions and enhanced collaboration with players in other jurisdictions.

Despite the above, sukuk recorded a lower amount of new issuances of USD40 billion during the first half of 2015 due to a slowdown in the current global financial markets and still-low oil prices. Malaysia remained the key jurisdiction for sukuk origination with issuances of USD19.8 billion or 50% of total market share.

Malaysia has evolved into a multicurrency sukuk issuance marketplace with issuances in US Dollar, Chinese Renminbi, Singapore Dollar and Japanese Yen.

Our banks, Islamic fund management companies and professional service providers, some of whom are with us today, have global capabilities and expertise in advising and managing cross-border financing and investments.

The diverse range of institutional investors creates a strong demand for sukuk that efficiently channel funds and liquidity in the market.

Tesco, a UK-based company, opted for sukuk issuance rather than bond under its conventional and Islamic MTN program due to the cost effectiveness of issuing the former.

We welcome sukuk issuances by other foreign entities, leveraging on Malaysia's expertise and framework.

### **New development in Malaysia**

Malaysia has promulgated the new Islamic Financial Services Act or IFSA in 2013 to provide for a comprehensive regulation and supervision of Islamic financial sector in compliance with Shariah.

Under IFSA, Islamic banks are required to segregate deposits that are principle guaranteed from investment accounts that are non-principal guaranteed. This allows Islamic banks to develop a wider range of products to meet investor risk-return preferences where the return to the investor will be more directly linked with the performance of the deposit fund. The financing extend beyond debt-based to include equity-based financing. This effort will further promote economic growth by broadening the financial intermediary role of Islamic banks.

### **Way forward**

The Forum today marks a new phase in our relationship as the industry players in both countries are taking the lead in sharing insights, exchanging ideas and taking efforts to encourage cross-border Islamic finance transactions.

The UK-Malaysia unique niches create immense synergistic collaboration, leveraging on our respective strengths to accomplish mutually rewarding outcomes.

We are committed to jointly resolving any outstanding issues, if any, for the purpose of advancing Islamic finance activities in both countries.

We hope significant deals could be initiated following today's event to facilitate cross-border flow of funds between both countries and regions, with the Malaysian delegation ready to share their experiences and expertise in this area.

For example, Malaysian players can partner with the UK players to structure a syndicated Islamic financing facility or joint lead-arrange a sukuk issuance for any of the identified UK regeneration projects.

Both London and Kuala Lumpur can succeed and prosper as leading global financial centres in Islamic finance. We are open to challenges and new ideas and look forward to working together with TheCityUK through a strengthened partnership to achieve these objectives in the years to come. A UK-Malaysia Working Group may provide that strategic platform to holding continuous dialogues for this purpose.

With this, I wish the Forum an engaging and fruitful discussion. Thank you